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RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 4993
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RUEHNE/AMEMBASSY NEW DELHI PRIORITY 2627
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RUEHCI/AMCONSUL KOLKATA PRIORITY 4311
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C O N F I D E N T I A L SECTION 01 OF 02 KATHMANDU 001008

SIPDIS

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TAGS: PREL PGOV PINR EFIN KTFN NP

SUBJECT: NEPAL: FINANCIAL INFORMATION UNIT EAGER TO BECOME OPERATIONAL

REF: KATHMANDU 743

Classified By: Ambassador Nancy J. Powell. Reasons 1.4 (b/d).

Summary

¶1. (C) On August 27 and September 5, Hari Kumar Nepal, one of only two personnel assigned to Nepal's new Financial Information Unit (FIU), explained the progress the FIU has made in drafting guidelines and the challenges it would have to tackle to become a functional entity in anti-money laundering (AML) and combatting the financing of terrorism (CFT). H.K. Nepal lamented that the Government of Nepal and Nepal Rastra Bank (NRB) would be limited in their ability to support the FIU while it acquires the technical expertise and investigative know-how crucial to AML/CFT. NRB officials offered feedback on a counterterrorism conference the U.S. Pacific Command organized in Kathmandu in early August and expressed interest in participating in similar events in the future.

FIU Finding Its Footing

¶2. (C) On August 27, Hari Kumar Nepal, the Assistant Director of the Legal Department of Nepal Rastra Bank (NRB, the central bank), told Emboff that the nascent Financial Information Unit (FIU) was eager to become fully operational but would have to wait for cues from the new, Communist Party of Nepal - Maoist-led government. H.K. Nepal, one of only two personnel assigned to the FIU, said he was responsible for drafting the unit's guidelines and bylaws. Eventually the FIU, currently a part of NRB's Legal Department, would become an independent unit within the central bank.

Responding to Emboff's inquiry about what kind of support he expected from the new government, H.K. Nepal said that NRB employees were in the same wait-and-see boat as every other observer of the country's transition. The Assistant Director said that the FIU would not receive any attention while the Ministry of Finance remained preoccupied with finalizing the budget, expected by mid-September, for the fiscal year that began in July.

Difficulties Ahead

¶3. (C) H.K. Nepal described the most difficult issues facing the FIU: lack of technology, analytic skill, and awareness. The FIU needs an information technology system that would allow it to collect and analyze data as well as easily submit records to a wider law enforcement network. Even if the FIU were to acquire such capabilities, current and potential personnel would not have the analytical training to differentiate "criminals from terrorists from gentlemen," according to H.K. Nepal. Furthermore, few commercial bankers, politicians, and bureaucrats -- including those upon whom the FIU is depending to give the unit autonomy and funding -- understand anti-money laundering and combatting the financing of terrorism (AML/CFT) issues. The Assistant Director acknowledged that he and his boss, FIU Director Dharma Raj Sapkota, had their work cut out for them in education and outreach.

Guidelines Drafted, Discussions Await

¶4. (C) In an update on September 5, H.K. Nepal informed Emboff that he had finished drafting the FIU guidelines and submitted them to the Finance Ministry for discussion. He said the upcoming festival season would delay any action, but he hoped the FIU could begin offering information seminars for politicians and commercial bankers by the end of the calendar year. (Note: The biggest holidays in Nepal, Dashain and Tihar, occur in October and November. Post does

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not expect any government office to accomplish much during the handful of workdays in these months. End note.)

Feedback on Counterterrorism Conference

¶5. (C) H.K. Nepal, Regmi Ramjee (Executive Director of the NRB's Foreign Exchange Management Department), and Kalyan Bandhu Aryal (Deputy Director of the same department) commented that they had found the Pacific Regional Approach to Counterterrorism (PACRAT-CT) conference that the U.S. Pacific Command organized August 4-8 in Kathmandu to be meaningful because many of the cross-border, terrorism-related topics were new to them. They also had found it lacking because coverage of these topics was superficial at best. The officers, three of the four from NRB who had participated in the conference, said that they wished more focus had been given to anti-money laundering issues, particularly specific guidance for developing and improving the function and technological capability of FIUs. Emboff opined that this might have been outside the scope of the goals of this particular event. H.K. Nepal said that the presentation he had found most useful -- by Prakash Singh, a senior Indian police officer, regarding transnational threats and regional security in South Asia -- had offered practical data specific to South Asia. The NRB officials assured Emboff that the other presentations had been good; however, they would have preferred less theory and more concrete, implementable proposals. H.K. Nepal reiterated that the conference had been a good experience, and he asked Emboff to notify him of future opportunities related to AML/CFT.

Comment

¶6. (C) Post will follow and report on the FIU's development over the coming months. Post's senior law enforcement adviser may have program funds available in FY2009 for computer hardware, software and training to address some of the resource and talent constraints the FIU faces. Hari Kumar Nepal is a young, energetic central banker who appears enthusiastic about collaborating with domestic, regional and international organizations -- including the U.S. Department of Treasury -- to advance the FIU. A commercial lawyer by

training, H.K. Nepal has confided to Emboff that he would someday like to pursue a doctoral degree in the United States and specialize in AML and CFT.

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